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SIPDIS

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TAGS: [ENRG](#) [ETRD](#) [IZ](#) [PGOV](#) [PREL](#) [SY](#) [TU](#)

SUBJECT: TURKISH OFFICIALS COMPLAIN RISING TRUCKING COSTS
MAY FORCE SUSPENSION OF FUEL DELIVERIES TO IRAQ'S SOMO

REF: A. 03 ANKARA 7444

[B](#). 03 ANKARA 7452

[C](#). HQ CPA 0583

[D](#). HQ CPA 0606

Sensitive but Unclassified -- not for internet distribution.

[1](#). (SBU) SUMMARY: Turkish officials at the Trade Undersecretariat and Turkish Petroleum International (TPIC) warned that truck transport of fuel to Iraq under the contract with SOMO may be suspended due to higher fees paid to Turkish truckers. TPIC's contract called for fuel deliveries of 90,000 tons per month. Delta Petroleum, SOMO's other major supplier from Turkey, said it had halted its deliveries since December, and assumed that KBR must be supplying enough fuel to meet Iraq's domestic demand. TPIC reported that a small amount of fuel is moving by rail via Syria, but this option remains very limited due to the poor condition of Iraq's rail system. The Trade official said Turkish authorities have tried to improve processing at the Habur border crossing, but said the government considers the daily maximum capacity at 3,200 vehicles, well below the government's commitment in the December talks to increase the level to 3,700. End Summary.

[2](#). (U) Econoff spoke with Sevket Ilgac, Deputy Director General, Foreign Trade Secretariat, Osman Turan, Vice President, Turkish Petroleum International (TPIC) and Mustafa Asur, President of Delta Petroleum, about fuel deliveries from Turkey to Iraq and the rail option via Syria. Turan explained that following talks in December 2003 hosted by Trade Minister Tuzmen (ref a) TPIC and SOMO agreed to begin deliveries of kerosene within two weeks, followed by deliveries of gasoil and gasoline. The agreement called for bartering refined products from Turkey for fuel oil from Iraq. According to Turan, the goal was for monthly deliveries of 90,000 tons -- 30,000 tons each of kerosene, gasoil and gasoline. By the end of December, TPIC began significant deliveries of kerosene, reaching a total of 90,000 tons by early February. Turan clarified that the deal with SOMO was on a commercial basis and was not under the Border Trade Agreement, signed with the Hussein regime, under which TPIC and other Turkish companies delivered goods to Iraq in exchange for petroleum.

TPIC Warns of Suspension

[3](#). (SBU) However, the barter deal lasted only a few weeks because of price fluctuations and the unexpected cost of transporting Iraqi fuel oil. Turan explained that TPIC originally planned to use the same tanker trucks that delivered light products (kerosene, gasoline) to Iraq to transport heavy fuel oil to Turkey but learned that the cost of cleaning each tanker was \$500 per trip. In January, TPIC and SOMO agreed to continue to make deliveries on a cash basis.

[4](#). (SBU) The change from cash to barter did not solve TPIC's problem. Turan said TPIC will be forced to suspend all truck deliveries on March 30 because of rising transport costs. Turan and Ilgac said that the deal KBR's contractors reached with truckers to end the December truckers' strike (ref b) -- raising the fee from USD 45 to USD 70 per ton -- forced TPIC and Delta to raise their payments, too. Turan said the higher fees put TPIC in the red, which will force the company to stop shipments March 30, after completing delivery of 30,000 tons waiting in the queue.

[5](#). (SBU) TPIC is talking with SOMO, seeking to renegotiate the terms of the contract. Turan emphasized that TPIC is ready to proceed and does not need to make money on the deal; what the company cannot do, however, is continue to deliver fuel to Iraq at a loss. Ilgac told us that Turkish officials

expected to meet their Iraq Transportation and Oil Ministry officials 18-20 February to discuss road transport issues and will raise the problems of rising trucker fees. (Note: ref d indicates that a date for the Turkey-Iraq talks has not been agreed and may not be possible until March.)

16. (SBU) Delta Petroleum, which had been delivering fuel to SOMO since the summer of 2003, stopped deliveries in December because it, too, was losing money. Delta continues to send trucks to Iraq, but only to bring back fuel oil as part of the barter agreement for fuel sent to SOMO in 2003. Delta President Asur said he has tried several times to renegotiate a deal with SOMO, but so far they have shown no interest. He assumed that the U.S. contractor KBR was supplying enough fuel to Iraq to satisfy domestic demand. (Note: In addition to their soon dormant contracts with SOMO, both TPIC and Delta continue to sell fuel to KBR subcontractors.)
Rail Through Syria

17. (SBU) The remaining option for TPIC at present is transport by rail via Syria, although this route has very limited capacity. In late December, talks among railroad officials from Syria, Iraq and Turkey led to agreement to reduce fees for rail transport: Iraq reduced its fees by 60 percent; Syria by 25 percent. Ilgac said the Syrian fees are still very high, but he expected the Syrian government to reduce the fees further. Currently, TPIC is able to send only one train per week, carrying about 1,000 tons of kerosene. Turan said TPIC would like to increase rail deliveries to 1,000 or even 3,000 tons per day.

18. (SBU) Turan and Ilgac said the biggest problem is on the Iraqi side. Iraqi officials told Turan that basic improvements would cost about \$28 million. Ilgac said Iraq does not have enough working locomotives, has not come up with any of the 200 tanker cars it said it would make available for fuel deliveries, does not have adequate repair and maintenance facilities, and the condition of the tracks in Iraq is quite poor. Turkey has offered to help Syria finance improvements and lend Iraq up to \$20 million of railroad equipment in return for bartered oil and refined products, he added.

Habur Gate

19. (SBU) Ilgac said that the government has taken important steps to improve the processing at the Habur Gate border with Iraq: Customs had stationed additional personnel at Habur, Minister Tuzmen had personally intervened with other GOT agencies to increase the flow, and the project to modernize the facility would begin soon, although he did not know the exact date. Ilgac said these measures have increased the traffic to about 3,000 vehicles per day, but said the government now considers the maximum capacity at the gate is about 3,200. We asked whether this indicated that Turkey was no longer committed to increasing the flow to 3,700, as agreed in December. Ilgac responded that it was not clear how to increase the levels much further. In a bit of wishful thinking, Ilgac said he hoped the bottleneck at Habur will not be a problem much longer because of the construction of a second border crossing at Ovakoy (which will take a year to complete), increased deliveries by rail and increasing production from Iraqi refineries. Comment: Daily tracking reports from Habur indicate that despite more personnel there continue to be significant periods every day when little or no processing occurs. And CPA Ambassador Jones noted (ref c) the Habur Gate facility was only being used to half its capacity.

110. (U) Baghdad Minimize considered.
EDELMAN